

# The Impact of Corporate Governance Performance on Corporate Sustainability: A Sri Lankan Perspective

H A R P Madushanka  
Ajantha S. Dharmasiri

## Abstract

The purpose of this paper is to examine the impact of corporate governance performance on corporate sustainability, since current practice is deficient in knowledge regarding the relationship between corporate governance and corporate sustainability. Following a sequential exploratory approach, this study adopts a mixed method. In the first phase, data were collected from 50 listed local companies in Sri Lanka in order to measure corporate governance and corporate sustainability performances. In the second phase, two mini-ethnographic case studies were conducted. Quantitative data were analyzed using the partial least squares (PLS) method, while qualitative data were analyzed based on thematic analysis. The current study identifies a significant impact of corporate governance performance on economic, social and environmental performances, with the highest impact being on social performance. The paper confirms the Stakeholder Theory, establishing the impact of corporate governance on economic, social and sustainability performances, while extending the theory by suggesting the importance of factors such as organizational culture and structure in creating an ideal, stakeholder-friendly organizational environment. While urging managers to be conscious of the short and long term economic, social, and environmental consequences of their business decisions, this paper confirms the ability of governance to influence sustainability performances of companies through organizational culture and structure. The research findings contribute towards an understanding of the impact of corporate governance performance on corporate sustainability. The paper further identifies the importance of studying the influence of factors such as organizational culture and structure on the relationship between corporate governance performance and corporate sustainability.

**Keywords:** Corporate governance, Corporate sustainability, Stakeholder theory, Triple bottom line.

---

**Mr. H A R P Madushanka** is a Senior Associate - Digital Marketing Moody's Analytics and Knowledge Services.  
E-mail: ranganashan@yahoo.com

**Prof. Ajantha S. Dharmasiri** is the Director, Postgraduate Institute of Management, University of Sri Jayewardenepura. E-mail: director@pim.sjp.ac.lk

## **Introduction**

Governments, regulators, activists, media and other interested parties have become very adept in holding all companies accountable for the social consequences of their operational activities (Porter & Kramer, 2007). Every company is required to perform better not only in profit making, but also in reducing the environmental footprint and enhancing social benefits. Non-financial indicators such as sustainability indicators have taken precedence over conventional financial indicators in most reporting instruments developed in order to measure performance of firms around the world. Concepts such as integrated reporting, human capital reporting, environmental accounting, and ESG (environment, social and governance) reporting are a few of the many tools developed in recent years to monitor and disclose the non-financial performances of firms, which investors take into consideration when making their investment decisions.

As the limited shareholder-only focus has been diversified to include all stakeholders with the introduction of the Stakeholder Theory, companies are now obliged to address all stakeholders' needs and requirements, including issues involving society and the environment (Porter & Kramer, 2007). Shareholder demands such as labour rights, screening processes, ethical business, terrorism financing, anti-money laundering, and preserving rain forests were prominent issues that have been discussed over the past decade, and which focused organizational managements' attention on these elements. Rising corporate scandals and the ultimate requirement of protecting every stakeholder's rights have forced regulators to develop corporate governance codes and strict monitoring mechanisms.

It has been perceived that sustainability is a core value that is embedded in the strategic direction and policy setting of an organization. Hence, the time horizon spanning the relatively short term expectations of a CEO's decisions and the long term consequences of those decisions should be taken into consideration when assessing the going concern of any business. Some examples for these concerns are Nike facing the rage of consumers after media exposed the fact that their suppliers were using unethical and illegal labour practices in Indonesia, Greenpeace's protests and the consequent newspaper headlines regarding Shell Oil's decision to sink Brent Spar, an obsolete oil rig in the North Sea, and the manner in which international pharmaceutical companies were expected to respond to the AIDS epidemic in Africa (Porter & Kramer, 2007). In all these cases, shareholders held the particular companies concerned accountable for future outcomes.

Given this temporal perspective, there could be important implications for the role of corporate governance in monitoring any organization's triple bottom line performance, compared to its classical role. This emphasizes the need to find a relationship between corporate governance and corporate sustainability. Therefore, a relationship between corporate governance and sustainability needs to be discovered, if any, and should be further explored to materialise its impact on any organisations' business model and value creation methodology over time (Aras & Crowther, 2008). Given the situation described above and the gap in the literature, this paper attempts to answer the following key questions: Does corporate governance performance impact corporate sustainability, and if so, how does it impact corporate sustainability?

The Stakeholder Theory postulates that an entity has a duty to multiple stakeholders (Freeman, 1984), as opposed to the Agency Theory, which focuses on value creation only for shareholders. In this context, ensuring its survival in the long run while balancing the needs of its stakeholders becomes an entity's prime objective, instead of solely maximizing its financial success (Hasnas, 1998). Therefore, it is necessary to first identify and then understand the impact of corporate governance performance on economic, social and environmental performances while investigating how the perception of corporate sustainability differs among firms with contrasting corporate governance performances.

Corporate governance is associated with balancing the expectations of shareholders and the wider stakeholder network (Sar, 2014). This study, emphasizes the need to recognize society and the environment as key stakeholders, and give them as prominent a place as shareholders when board decisions are made. It is encouraging to find a connection between corporate governance and sustainability when disclosure levels are increased, and more prominence is given by organizations to these aspects. This uncovers a further research area as well (Aras & Crowther, 2008). The most important contribution of this paper is the understanding it provides of the impact of corporate governance performance on corporate sustainability in an exploratory sense, by identifying the vehicles influencing this relationship. Understanding how corporate sustainability aspects can be best served by boards and managements of organizations is paramount, as this could pave the way towards developing an ideal corporate governance framework in order to ensure the sustainability aspect of the organization, which in turn will secure long term value creation prospects for the management on behalf of stakeholders.

The remainder of this paper is organized as follows. The next section briefly reviews the existing literature on corporate governance and corporate sustainability. Following that, the hypotheses are developed. Thereafter, data collection efforts and the research design are presented. The penultimate section of this paper presents the research findings, followed by the conclusion which discusses the theoretical and managerial implications of the study.

## **Literature review**

### ***Corporate governance performance***

Corporate governance can be considered as an environment of trust, ethics, moral values and confidence, as a synergic effort of all the constituents of society, that is, the stakeholders, including the government, the general public, and the professional/service providers which comprise the corporate sector. One of the consequences of a concern with the actions of an organisation, and the consequences of those actions, has been an increasing concern with corporate governance (Hermalin, 2005). Corporate governance is, therefore, a current buzzword the world over. It has gained tremendous importance in recent years. Two of the main reasons for this upsurge of interest in corporate governance are the economic liberalisation and deregulation of industry and business, and the demand for a new corporate ethos (Joyner & Payne, 2002) and stricter compliance with the laws of the land. One more factor that has been responsible for the sudden exposure of the corporate sector to a new paradigm for corporate governance that is in tune with the changing times, is the demand for greater accountability of companies to their shareholders and customers (Bushman & Smith, 2001).

The definition of corporate governance is not a unified terminology. With the evolution of this concept, corporate governance has been described using different perspectives. As Cadbury (1992) explained, management's duty is to ensure the realization of the goals set for the organization and the communication of progress to the shareholders. Another perspective is that corporate governance is a set of processes and structures which direct and manage the affairs of a corporate and constitutes a set of rules and regulations which regularize the relationship between management, board, shareholders and other stakeholders (Ching et al., 2006). Even though there are different definitions to describe corporate governance, it is understood to be a key factor in achieving economic efficiency and enhancement of wealth, justifying the trust placed in the company by its shareholders (Klirova, 2001). Even though there has been a continuous

debate on corporate governance, it has merely focused on disclosure, internal control, and transparency of financing or accounting perspectives, ignoring, for the most part, other elements of management (Daily et al., 2003). International bodies like the OECD (2004) and the International Corporate Governance Network (2003) have tried to bring in the accountability perspective without ignoring all other stakeholder perspectives (Luo, 2005). Yet these frameworks and codes have only focused explicitly on a rather specific set of stakeholders such as employees and managers, other than shareholders (Aguilera & Jackson, 2003).

Following scandals such as Enron, Worldcom and Ahold, regulators attempted to strengthen the corporate governance and accountability of entities using legislation, frameworks and models. The Sarbanes-Oxley Act is considered to be one of the most notable legislatures which focused on the internal control of managers, Boards, auditors and risk aspects, in order, especially, to enhance shareholder insights. Further, this Act includes ethical aspects related to remuneration, managerial and employee behaviour and complaint handling mechanisms (Kolk, 2008). The above mentioned reforms to corporate governance influenced business ethics a great deal, and received the attention of academia as well (Rossouw, 2005). Along with general studies on corporate governance, recent scholarly work has involved comparative analyses on regulatory and systems developments in different regions (Bedicks & Arruda, 2005; Demise, 2005; Kimber & Lipton, 2005; Rossouw, 2005; Ryan, 2005; Wieland, 2005).

The Agency Theory (Berle & Means, 1932; Jensen & Mackling, 1976), which separates control from ownership, still prevails as the dominant corporate governance theory, challenged perhaps, but surviving. The Agency Theory views the modern corporation as a nexus of contracts between principals and agents (Aguilera & Jackson, 2003), and has contributed valuable insights into many aspects of the manager- shareholder relationship (Daily et al., 2003), and thus, into the role of Boards of Directors as well (Jensen & Meckling, 1976).

The concept of corporate governance has been explored from various perspectives, even though the Agency Theory plays the pivotal role in separating ownership and control. However, it has overlooked many other key facets of corporate governance, according to Aguilera and Jackson (2003), such as other stakeholders who can influence the going concern of an organisation. Reisberg (2011) presented another perspective of corporate governance by introducing the Stewardship Theory. According to him, corporate governance is a process in which all interested parties seek to influence the corporation

in the direction of long term sustainability. As discussed above, corporate governance has been studied from different perspectives. The Agency Theory has provided many insights on owner-manager conflicts and other related areas of governance. However, it has ignored the valuable inter-dependencies of other stakeholders (Aguilera & Jackson, 2003). The concept of the stakeholder was emphasized by R. Edward Freeman (1984) in his book *Strategic Management: Stakeholder Approach*. He emphasized that the purpose of a corporation is to serve all its stakeholders. The term “stakeholder” refers to a variety of constituents who are either interested in or impacted by the affairs of the corporate. It includes suppliers, employees, management, shareholders, customers, the community and an organization’s competitors (Schilling, 2000).

The Stakeholder theory suggests that the capacity of an organisation to create sustainable value over time is determined by the relationship of the organisation with its critical stakeholders (Carroll, 1989; Donaldson & Preston, 1995). The ultimate objective of any organisation is to create value for its stakeholders, as there exist common interests and objectives binding the organization and its stakeholders. Therefore, identifying common interests becomes a challenge for the management, which can create a common set of objectives for both the organisation’s management and its critical stakeholders. To overcome this, Hill and Jones (1992) developed the ‘stakeholder agency model’, and argued that managers are agents of not only shareholders but of all the stakeholders. Good governance is important in every sphere of society; in the corporate environment or in society in general (Aras & Crowther, 2008). When resources are at the minimum level or are limited and cannot meet the minimum requirement of the society, it is good governance that can help promote the welfare of that society (Durnev & Kim, 2005).

### ***Corporate sustainability***

The classical definition of sustainability was introduced in the 1987 report ‘Our Common Future’, prepared by the World Commission on Economics and Development. According to this definition, sustainability development seeks to fulfill the needs of the present, without compromising its ability to do so in the future (Shrivastava & Addas, 2014). This concept, when applied to business, has transformed into the concept of corporate social responsibility, and in a broader sense, to sustainable development. Hence, sustainability ensures the future generations’ ability to meet their needs. Compared to the past two decades, companies have begun to understand the change in societal expectations regarding business affairs. As Benn and Dunphy (2007) point out, better corporate governance, sustainability initiatives, democratic management,

and equitable distribution of risks play a pivotal role in deciding the future growth prospects of companies, as the public has an enhanced awareness of the social and environmental risks posed by the business activities of organizations around the world. Hence, financial performance alone will not be sufficient anymore. Satisfying other stakeholders, who are non-investors, has become equally important for companies (Savitz & Weber, 2006). Sustainability has become a controversial word within both the corporate world and among the general public, as it means different things to different people. At the very outset, it can be defined as the effects that actions taken in the present have upon the options available for future (Aras & Crowther, 2008). The resource usage patterns of organisations become central to the question here, as they limit the usage of finite resources in the present, since overuse will not leave anything for the use of future generations. Viewing an organization as part of the greater society and the economic system as well, makes it vital for that organization to be alert regarding its resource usage and the consequent impact on the economic, social and environmental atmosphere (Hart, 1997). As Elkington (1997) suggests, any organisation's goal is not singular anymore, merely to create value for its shareholders, but rather, it is threefold. An organisation should aim to create economic, social and ecological value over time in order to survive, and that is a suitable definition for sustainable development.

Not only does such sustainable activity impact upon society in the future, but it also impacts upon the organisation itself. Thus, good environmental performance by an organization in the present, is in reality an investment in the future of the organization itself (Waddock & Graves, 1997). In developing a business strategy to integrate short term and long term aspects, it has been proven that economic problems alone cannot be taken into consideration, and that a three-dimensional approach, namely, an approach that takes into consideration economic, social and environmental performances (Dyllick & Hockerts, 2002) is needed.

### ***Corporate governance performance and corporate sustainability***

The simple definition of sustainability, 'society meeting its present needs without compromising on future generations' ability to do the same' is conflicted by the commonly held view on corporate governance that entities should strive to maximize shareholder wealth, ignoring all other stakeholders and their interests. Sneirson (2009) debunks this myth in his study as a matter of law and function of social norms, by presenting a paradigm shift for corporate governance, where companies voluntarily commit and report on sustainability best practices. He presents the recent 'B

Corporation' sustainable business model certification and an enactment of a corporate law in Oregon, United States, which encourages entities to be sustainable. Corporate governance's role in promoting corporate sustainability is clearly revealed and proven in this study.

Businesses have understood their responsibility to balance economic growth with environmental sustainability in enhancing overall wealth for themselves and for their stakeholders by adopting a triple bottom line approach in business contexts (Sharma & Khanna, 2014). In achieving triple bottom line development, it becomes imperative for entities to deal with corporate social responsibility, sustainability development initiatives as well as corporate governance. Various scholars have shown interest in explaining these relationships in recent literature.

After analyzing environmental, social and governance information through the Bloomberg ESG data universe which comprises of more than 3000 companies, Shrivastava and Addas (2014) found a positive correlation between better corporate governance and higher sustainability scores. Further, they found that board meeting attendance, and having more independent directors on the Board, to be factors with higher disclosure scores than environmental disclosure scores and ESG disclosure scores. This suggests that highly disciplined Boards tend to achieve better sustainable performance scores, a conclusion that builds on the work of Aras and Crowther (2008). It is stated there that these corporate governance practices lead to organizations having an environmental policy and a climate change policy within the company itself.

### ***Understanding how corporate governance performance impacts corporate sustainability***

As Dovers and Handmer (1992) suggested, "global environmental change and human sustainability are characterized as the challenge of managing change in dynamic systems riddled with uncertainty". This encouraged the current researcher to investigate the relationship between corporate governance performance and corporate sustainability in terms of change management. This exploration intends to see whether corporate governance mechanisms, which are initiated by the Board of directors and the management of an organization, need to consider corporate sustainability as a 'change' which needs to be managed to ensure corporate sustainability. The following section briefly presents previous scholarly work on change management in order to understand the change management process.

Change management has been heavily researched in the last five decades, and is an area that has undergone rapid developments all over the world. Researchers have defined change management considering all its possible effects and relationships with other concepts. The continuous process of reviewing and revising direction, structure and capabilities in order to satisfy rapidly changing needs of internal and external customers, was how change management was defined by Moran and Brightman (2001). As Burnes (2004) stated, organizational change should be given the utmost priority in the management of business affairs, as it is an ever-present aspect in organizations and is a feature of organizational life. At both operational and strategic levels of management, change can be observed, and hence, organizational change cannot be distinguished from strategy development or any other basic management function (Burnes, 2004; Rieley & Clarkson, 2001). Over the last two decades, change management has been identified as a managerial skill because of the importance of organizational change (Senior, 2002). All these suggestions have led scholars to consider leadership in organizational change as the primary task of organizational management, against the backdrop of changing regulations, globalization, rapid technological advancements and changing social and demographic trends (Graetz, 2000).

## **Hypotheses and conceptual model**

### ***Corporate governance performance and economic performance***

The relationship of economic performance with corporate governance performance has been extensively researched in many countries, with, however, a lack of conclusive evidence (Mani & Sreedharan, 2004). As Cadbury (1992) explained, management's duty is to assure the realization of set goals, and to communicate progress to the shareholders. This is the definition of corporate governance considered in this study. Economically sustainable companies guarantee continuous cash flows sufficient to ensure liquidity, while producing a persistent, above-average return to their shareholders (Dyllick & Hockerts, 2002). Yet, the broad agreement has been that 'good governance does pay' (Eisenhofer, 2010). After analyzing 1500 large US firms, Gompers, Ishii and Metrick (2001), found that risk adjusted returns of firms with strong governance indexes were 8.5 percent higher than those of firms with poor governance indexes. In constructing the governance index, the power balance between shareholders and managers was considered, and for every provision which reduced shareholder rights by increasing the power of the manager, a single point was given. Firms with high corporate index values show low risk-adjusted returns, proving a strong positive correlation between

corporate governance and financial returns. Balasubramaniam et al., (2008) found a significant correlation between the India Corporate Governance Index and the Tobin's Q values of the firms they studied. Brown and Caylor (2004) also found a positive relationship between corporate governance and firms' economic performance. Derwall and Verwijmeren (2007) analyzed how corporate governance attributes of listed companies were perceived by the capital markets, by comparing the Governance Metric International (GMI) governance rating with the firms' cost of equity capital. The study shows that firms with higher corporate governance scores are perceived as firms with lower risks to investors. This reveals how corporate governance performance translates to the strength of investment, which in turn confirms its relationship with economic performance. Even though the above studies confirm a positive relationship between corporate governance and firm performance, Core et al., (2006), Statman and Glushkov (2009), and Mukherjee and Ghosh (2004) found no significant relationship between these two aspects of a firm.

In order to measure the economic performance of a firm by some other tools rather than the popular 'economic value added' (Sar, 2014) economic performance, market presence and indirect economic impact are used, and are reflected by nine measurements. Based on those tools, the following hypothesis is proposed.

*H<sub>1</sub>: Corporate governance performance impacts firm's economic performance.*

### ***Corporate governance performance and social performance***

Socially sustainable companies add value to the communities within which they operate by increasing the human capital of individual partners as well as by furthering the societal capital of these communities. They manage social capital in such a way that stakeholders can understand their motivations, and can broadly agree with the companies' value systems (Dyllick & Hockerts, 2002). Value chain activities of every organization have an impact on the social system within which the organization operates (Sar, 2014). Human rights is found to be an aspect which needs to be taken very seriously, as it impacts company performance a great deal. It is suggested that human rights be included in the governance mechanism as well (Jackson, 2008).

Jackson (2005) established linkages between corporate governance and employment patterns in 22 countries using the "qualitative comparative analysis" method. He used the "United Nations universal declaration of human rights; international covenant

on economic, social and cultural rights; convention on the elimination of all forms of discrimination against women; ILO declaration on fundamental principles and rights at work; and the Vienna declaration and programme of action” as the bases for particular aspects of assessment of labour practices. Corporate governance and its relationship with labour practices was investigated by Gilson and Roe (1999). By basing his declaration on the natural law theory, Jackson (2008) argued for the need to include human rights into the governance mechanism. He based his arguments on the content of the International Bill of Rights which is formed by three instruments - The Universal Declaration of Human Rights (1948), the International Covenant on Civil and Political Rights (1966), and the International Covenant on Economic, Social and Cultural Rights (1966). In the course of transactions of business, incidences of violations of human rights have been widely reported globally (Sar, 2004). Thus a basic need to respect human rights has come to the forefront for consideration. Over a period of time, a consensus has emerged globally that companies have the responsibility to respect human rights. The associated performance indicators require companies to report on changes in the stakeholders’ ability to enjoy and exercise their human rights, and on the extent to which processes have been implemented on prevention of incidence of human rights violations”.

Business processes directly and indirectly impact every aspect of local communities through their value chain related operations. These impacts and associated risks have been widely reported globally. For electricity generating companies in India, in particular, large scale impacts on communities in which the companies operate, have been reported. The indicators relate to these impacts and risks, and how they are managed. In particular, information has been garnered on the risks associated with monopoly practices, undue influence in public policy making, corruption and bribery. Schneider and Scherer (2013) argued that business firms may be able to mitigate the redistribution of individual risk and address the resulting legitimacy deficits even when operating under conditions of regulatory gaps and governance failure, by democratic involvement of various stakeholders. Product Responsibility performance indicators capture a company’s offerings that directly affect consumers, through privacy and marketing, labelling and information, and safety and health. Hence, the following hypothesis is proposed.

*H<sub>2</sub>: Corporate governance performance impacts firm’s social performance.*

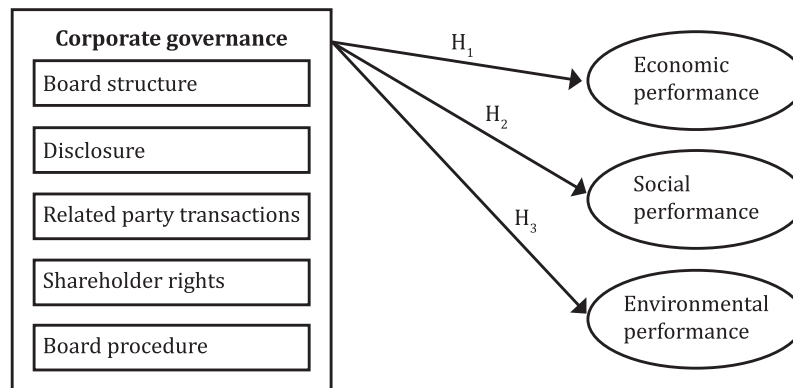
### ***Corporate governance performance and environmental performance***

As one of the three key components of corporate sustainability, environmental sustainability plays a vital role in an entity's journey towards achieving corporate sustainability. Environmentally sustainable companies use only natural resources that are consumed at a rate below their natural reproduction, or at a rate below the development of substitutes. They do not cause emissions that accumulate in the environment at a rate beyond the capacity of the natural system to absorb and assimilate these emissions. Finally, they do not engage in activities that degrades ecosystem services (Dyllick & Hockerts, 2002). In achieving environmental sustainability, corporate governance structural changes are considered an important factor (Ortiz-de-Mandojana et al., 2010). Spira and Bender (2004), explain the need to form a Board committee with the leadership of a director who is influential over decision making in order to monitor the functions of environmental sustainability, especially as a delegation of power from the main Board. The fact that the positions of the Chairman and Chief Executive Officer are held by two different individuals has an impact over environmental and societal decision making (McKendall et al., 1999). Through this study, the author argues that a Chairman who is not a CEO, would be in a better position to be less pressured to perform any short term beneficial outcomes, and also better positioned to counter argue an act of noncompliance with environmental law which can be very unfavorable in the long run. Every firm's core and non-core operational activities which are performed in order to create value for the organization has an impact on environmental entities such as water, air and land. The environmental performance of a firm is measured using six elements, and they are materials, energy, water, biodiversity, emission, effluents and waste. Based on a factual research study, a positive link between corporate governance and the environment has been established by Walls, Berrone and Phan (2012). Hence, the following hypothesis is proposed.

*H<sub>3</sub>: Corporate governance performance impacts firm's environmental performance.*

Based on the above hypotheses, the following conceptual model was adopted.

**Figure 1: Conceptual model**



## Methodology

Following the principles of the post-positivistic research paradigm, based on the nature of the research question and the limited number of participants in the sample population of the quantitative study, a mixed method research structure was chosen (Creswell & Garrett, 2008). Crossan (2003) encourages the novice researcher to understand the strengths and weaknesses of each method, as the distinction between quantitative and qualitative research methodologies is overstated. Hence this paper, avoiding the weaknesses and combining the strengths of both qualitative and quantitative methodologies, uses a mixed method to investigate the relationship between corporate governance and corporate sustainability. Since the study was a sequential mixed method research, the quantitative part of the study was carried out first.

In the quantitative part of the study, an index was used to measure the corporate governance performance of the selected companies. The questions relating to corporate governance performance which were used to calculate the index were drawn from previous studies that have used them to measure the corporate governance performance of companies (Black, Kim, Jang & Park, 2009; Balasubramanian, Black & Khanna, 2010). Given the sample size and the advanced capabilities of the technique, Partial Least Squares (PLS) analysis via path strengths were used in this study in order to test the hypothesized relationships between the variables as described in the conceptual framework.

The qualitative study was carried out thereafter as a multiple case study analysis, selected from the results of the quantitative study. Two companies with the highest and the lowest corporate governance performance were chosen as two exemplary cases in order to explore the two extreme characteristics of corporate governance performance, perception of corporate sustainability and the factors influencing the relationship between corporate governance performance and corporate sustainability. After developing a structured interview guide, five members of both the Board and the corporate management per case, were interviewed. These data collected through the interviews were analyzed using the technique of thematic analysis (Braun & Clark, 2006). These themes were used for case study analysis and cross case analysis by comparing corporate governance performance and the perception of corporate sustainability. Finally, the data gathered through both quantitative and qualitative methods were merged by triangulation in order to validate one dataset using the other dataset (Palkinkas, Aarons, Chorpita, Hoagwood, Landsverk, & Weisz, 2009).

### ***Quantitative design***

#### ***Measures***

An instrument used by previous scholars (Black, Jang & Kim, 2006; Balasubramanian, Black & Khanna, 2010) was used in measuring corporate governance performance by developing a corporate governance index for each selected listed company.

The measurement for corporate sustainability was based on the Global Reporting Initiative (GRI) (GRI, 2016) indicators for sustainable performance measurements, which was found to be comprehensive in measuring sustainable performance (Milne & Gray, 2013). The respondents were asked to rank their answers using a Likert-type scale ranging from 1 (Strongly disagree) to 7 (Strongly agree), based on the current status of their company. Data relating to economic, social and environmental performances were gathered using a self-administered and structured questionnaire distributed among Board level and corporate management level employees of the selected organizations.

#### ***Sample and data collection***

With the support of previous scholarly work (Sar, 2014), a questionnaire survey was used in order to collect quantitative data. The survey was carried out with a sample of fifty companies listed on the Colombo Stock Exchange (CSE). The unit of analysis

of this study was the individual organization. The data was gathered by distributing the questionnaire among Board level and corporate level employees of these selected companies.

### ***Qualitative design***

#### *Selection of cases and data collection*

This study selected the multiple extreme case study approach. The selection of this method can be rationalized in many ways. As the multiple case study technique enables the researcher to explore differences and similarities within and between cases (Yin, 2003), two case studies were selected for this study. Through this, the research study attempted to replicate the findings across cases. As Yin (2003) further explains, the selection procedure of the cases is significant due to the importance of drawing comparisons from the cases. This will enable the researcher to predict similar or varied results across cases. In this research, two cases were selected based on corporate governance performance measured in the quantitative study. A case with a high corporate governance performance and another case with a low corporate governance performance were selected as the objects of the qualitative study, considering in particular the performance of the independent variable, which is corporate governance performance. Brief descriptions of the selected cases are provided in the next section. Ten interviews were conducted to collect data from the two case studies. The interviews were primarily held with Board level and corporate management level employees of the two selected cases. The interviews were recorded with the consent of the participants.

## **Results**

### ***Quantitative data analysis***

The analysis was begun with the transcription of data into the statistical package for social sciences (SPSS) software. After the data cleaning process, the multivariate assumptions were tested. Out of these tests, the Kolmogorov-Smirnov statistic (K-S test) and the Shapiro-Wilk statistic were used to check the normality of the data set. Most variables did not score a significant value of more than 0.05, not satisfying the assumptions for normality (Kaplan, 2008; Kothari, 2004). According to Kothari (2004), statistical techniques which are used to analyze more than two variables simultaneously are categorized as multivariate techniques. These techniques are considered to be

closer to reality and have significant empirical support and the ability to process complex data. Based on the findings of prior research, given the abnormal distribution of the data set, the limited sample size (Chengalur-Smith, Duchessi, & Gil-Garcia, 2012; Hair, Black, Babin, Anderson & Tatham, 2006), and the advanced capabilities of the technique, the Partial Least Squares (PLS) analysis via path strengths was used in this study (Handbook of partial least squares, 2010).

### ***Measurement model***

According to Hair et al., (2006), testing the measurement model before trying out the structural model is important due to the fact that a legitimate structural concept cannot be performed with bad measures. The reason for developing a measurement model is to evaluate the reliability and validity of the constructs used in the study. The AVE and the reliability of the constructs are examined in Table 1. In keeping with Table 1, the construct reliability (CR) of the measurement model was tested, since the composite reliability and Cronbach's alpha are all well above 0.7. In fact, the convergent validity was ensured, as all the signs have resulted in AVE values of well above 0.5. Consequently, discriminant validity was classified by evaluating AVE values versus Squared Multiple Correlations (SMC) of variables. In line with Table 1, it can be seen that the diagonal values (square roots of AVE) are higher than the correlation values, row sensible and column clever. Therefore, in the measurement version, validity and reliability are justified via the effects acquired. Thus, step one of the PLS evaluation has been completed.

**Table 1: Descriptive statistics**

| Variable | Mean  | Factor Loading<br>(Min-Max) | AVE   | CR    | Cronbach's<br>Alpha | AVE vs SMC |        |        |        |
|----------|-------|-----------------------------|-------|-------|---------------------|------------|--------|--------|--------|
|          |       |                             |       |       |                     | CG         | ECP    | SOP    | ENP    |
| CG       | 0.612 | 0.496-0.771                 | 0.462 | 0.782 | 0.655               | 0.462*     |        |        |        |
| ECP      | 4.464 | 0.876-0.949                 | 0.865 | 0.970 | 0.961               | 0.776      | 0.865* |        |        |
| SOP      | 4.012 | 0.826-0.982                 | 0.853 | 0.983 | 0.980               | 0.794      | 0.799  | 0.853* |        |
| ENP      | 4.184 | 0.858-0.963                 | 0.830 | 0.961 | 0.948               | 0.760      | 0.785  | 0.796  | 0.830* |

Note: \*Significant at the 0.05 level

### ***Structural model***

The impact of the independent variable (CG) on the dependent variables (ECP, SOP, and ENP) presented in the conceptual model (Figure 1) was further explained in the structural model. The standardized beta value of the conventional regression model was considered as the path coefficient. The significance was determined using the t-value generated through bootstrapping. The F squared value was used to determine the impact of the exogenous variable on the endogenous variables, which are presented in Table 2.

As Table 2 shows, these hypotheses were developed to identify the relationship between and the impact of corporate governance performance on economic, social and environmental performances. The coefficient of determination of these relationships are positive, with a score above 0.7. Further, these path coefficient values are significant, as their T-values are greater than the critical value (higher than 1.96 for significance at 95%). The significance of these path coefficient values is high for this relationship. A lower P value below 0.001 confirms the lesser probability of achieving the same outcome for the null hypothesis, thus supporting all three hypotheses.

The effect size of each relationship was used to measure the impact. This shows the effect of particular exogenous latent variable on endogenous latent variables through the changes in the R-squared (Chin, 1998) values. As Cohen (1998) suggests, F-Squared values of 0.02, 0.15 and 0.35 can be classified as having weak, moderate and strong effects, respectively. Table 2 shows the very strong impact of corporate governance on economic, social and environmental performances with a high F-Squared value. Hence, it can be confirmed that the corporate governance performance of a listed entity has a significant impact on its economic, social and environmental performances.

**Table 2: Results of the structural model**

| <b>Path</b> | <b>Hypothesis</b> | <b>COD</b> | <b>T-Value</b> | <b>P Value</b> | <b>F Square</b> | <b>Support</b> |
|-------------|-------------------|------------|----------------|----------------|-----------------|----------------|
| CG→ECP      | H <sub>1</sub>    | 0.776      | 22.509*        | <0.001         | 1.513           | Yes            |
| CG→SOP      | H <sub>2</sub>    | 0.794      | 28.892*        | <0.001         | 1.369           | Yes            |
| CG→ENP      | H <sub>3</sub>    | 0.760      | 22.831*        | <0.001         | 1.704           | Yes            |

*\* Significant at the 0.05 level (two-tailed). COD - Coefficient of determination*

### ***Qualitative data analysis***

#### *Case one - The ABC bank*

The ABC bank is one of the largest financial service providers in Sri Lanka, serving an over three million customer base with a variety of financial products and services. The bank operates not only in Sri Lanka, but also in a few other countries, with an employee base of around five thousand. With over four decades of experience in banking, the bank envisions to be a top ranking financial service provider in the South Asian region, hoping to expand its reach and customer base in the future. As a conventional service provider, over the years, the bank has shown solid organic growth with an over-growing balance sheet and a healthy return for its investors. The bank has invested in its IT infrastructure, providing an effective and efficient service for its customer base, in every available medium. The bank has also received several prestigious, world-renowned awards for its customer-centric service over the years, proving its vision of delivering the best value to its stakeholders.

With a long standing, high quality service record, the ABC bank has won over millions of customers since it is one of the prominent commercial banks in the country. By choice, the Board has decided to be compliant with corporate governance best practices, even before the mandatory codes were introduced to the Sri Lankan banking industry. Diversity at Board level is considered an important factor for the bank, and the right balance in terms of expertise, experience, and independence factor into their decision-making, according to the respondents.

*“Board balance is extremely important. When we get someone on our board, we only look at the needs of the bank and don’t look at the individual, however much the person is capable in some field of expertise or something. We need certain expertise present all the time in our board. We are a bank, a commercial bank. What we need is some expertise in our board in banking”.*  
(Respondent 2, Board Member)

The need for the Board to be the ultimate body in an oversight and advisory capacity is recognized at the Bank, and leaving management in the capable hands of the Executive Directors of the Board is considered the best solution.

Board training is a key governance parameter when it comes to Board procedures, and in a situation where most companies don’t believe in Board training, this Bank encourages

continuous professional development for its Board members. What is important is that Board members are very positive and welcome the training initiatives.

As a corporate governance prerogative, disclosures are considered to be a very important part of the entire organization. More than merely being compliant with the regulations imposed by outside regulators, the Bank tries its their level best to provide as much information as possible to ensure transparency. Updating their disclosures periodically with the best practices accepted around the world is an initiative which the Board is interested in.

Investigating the perception of corporate sustainability using both cases is a qualitative objective of this study. The bank believes in the co-existence of economic, social and environmental aspects in ensuring sustainability. For the survival and the long term continuity of business operations, the bank is working towards improving all three aspects of economic, social and environmental performance in terms of financial growth, enhancing societal impact through CSR initiatives and reducing the environmental footprint.

*"If you put economy on top, economy cannot sustain without the environment and without society. So all three must coexist. Nothing is more important than anything else." (Respondent 2, Board Member)*

#### *Case two - The XYZ hospital*

The hospital has achieved many firsts in the Sri Lankan healthcare industry, providing valuable care for its customers over the three years of its existence. While dominating the entire industry, the hospital has grown significantly in the recent past to become a group of companies diversifying to several different business sectors. Its ethos of providing the best and the most affordable healthcare in the region has won many hearts, and this, in turn, has helped the hospital to be adjudged the winner of many business excellence awards globally. The best forms of technology, infrastructure and human capabilities are integrated into this hospital's caring services. As an industry that has evolved over time, the hospital has done well to be on a par with the best healthcare providers in the region, attracting foreigners towards medical tourism. As a promoter of Sri Lanka as a tourist destination, the hospital is dedicated towards a national and international service which is admired by Sri Lankans as well as by foreigners.

The XYZ hospital showcases a less committed approach towards corporate governance performance. The fact that the Chairman and the Chief Executive Officer's roles are not segregated is a negative aspect of the hospital in terms of corporate governance performance. However, this has given the hospital a certain strategic advantage as well. Moreover, the Board is full of shareholders, and hence, the independence of the Board is questionable.

Having major shareholders on the Board, therefore, cannot be considered a good governance practice. It could negatively impact the distance maintained between the Board and management; hence, management is focused heavily on Board members who are major shareholders of the company.

At the hospital, there are no training procedures at Board level. Board members at the hospital think of training as not being 'practical', given their seniority and expertise in their respective fields.

*"All our directors are very mature and they are superb. Most of them are very senior professionals who have held top positions at most of the big companies in Sri Lanka. These directors have reached the pinnacle of their professional life, and hence, we don't think we can train them. Most Sri Lankans in the field have been trained by these professionals and there's no facilitator in Sri Lanka who could train them. Practically it is very difficult to train them even though it is required by corporate governance codes." (Respondent 1, Board Member)*

In contrast to the bank, economic sustainability is considered to be far more important to the hospital than social or environmental sustainability.

*"It is very important, especially because, if there's no growth financially, there's no way that we can grow as a business. But the government's imposition of indirect taxes and industry requirements periodically to invest heavily in equipment, tampers with our bottom line from time to time." (Respondent 2, Board Member)*

### ***Cross case analysis***

After analyzing both cases individually, the similarities and differences between both cases are presented briefly in this section. In this, as suggested by Yin (2014), word tables are used to summarize the findings, presenting the significant differences under each aspect mentioned above with regard to each theme identified during the thematic analysis.

Corporate governance performance was the variable which was used in selecting extreme cases for the qualitative study. Hence, there are significant differences observed between both cases. In the discussion, a similar approach to the single case analysis is employed, where the analysis is presented based on identified themes.

Significant differences in terms of the diversity of the Board can be seen when the bank and the hospital are compared. In the bank, expertise in the banking business is evident when examining the profiles of the directors in the annual report. Four out of the ten directors are life-long professional bankers who are renowned in the industry. However, in the hospital, there is only one director who has expertise in the industry, which is a noticeable difference between the two cases, and which might have been a limitation in the hospital Board decision-making process (Annual Reports, 2016). Both Boards have not been able to achieve any sort of gender balance, as both have an amazingly small number of women.

The bank strongly believes in limiting its Board's functions to oversight and advice, without allowing those functions to interfere with the bank's day to day business operations. But in the hospital, the Chairman of the Board, being the CEO as well, has difficulty in maintaining an arm's length relationship with the management. As regulated by the CSE, the hospital has appointed a senior independent director to overcome the fractured situation of having the same individual holding both the Chairman's and the CEO's positions; however, this practice has not been endorsed worldwide as a best corporate governance practice.

The bank provides continuous professional development as and when it is deemed necessary, for its BOD. Even though there is no periodic training programme for the BOD, there are other professional platforms which have been identified by the bank in order to fulfill these training requirements. More importantly, the bank believes that professional development for the BOD is important, especially since the BOD needs to

be updated about dynamic market trends and other technological developments. The hospital, however, does not think it is possible to provide training for the BOD, as it is full of very senior, expert professionals. For the most part, the respondents stated that it is not 'practical' to suggest training for Board members. Similarly, the hospital does not evaluate the performance of its Board members, whereas the bank has introduced an external performance evaluation process for the Board. In spite of these general trends in the hospital, some respondents do believe that there should be training and evaluation mechanisms for Board members as well.

Both organizations use state-of-the-art reporting frameworks and guidelines such as Integrated Reporting, GRI and other sustainable reporting parameters in developing their annual reports, which is considered to be the ultimate disclosure mechanism of any listed company. But at interviews, concerns were raised by members of the hospital corporate management about the accuracy of the information provided in the annual report. This shows that transparency in disclosure is lacking at the hospital. Also, the researcher noticed that the annual reports or other financial documents are not made available on the corporate website of the hospital, which can be deemed an unsatisfactory practice for a transparent organization. The bank has shown contrasting characteristics with regard to disclosure, as no concerns were raised regarding the authenticity of the information provided in any public document.

Both companies have shown above- average industrial growth over the recent years, and financial growth is perceived to be a very important factor for survival in the long run. This sentiment is echoed in both Chairmen's messages provided in the very recent annual reports. The bank, with a conventional style of banking, has been growing organically over the years. But now, it shows signs of inorganic growth as well, moving into new markets in the region. The financial statements of the bank prove significant growth in businesses in other markets. Moreover, the hospital has made huge investments in recent years in projects which are expected to be profitable in the long run. Even though the strategies employed by the organizations are different to each other, they focus equally on financial growth. The bank considers CSR to be an independent function which is totally distinguished from its business operations, which are managed by an independent Trust. However, the decisions made by this Trust are referred to the Board, and advice and consent are sought from the Board depending on the initiative. In the hospital, most CSR projects are organized by the Finance Department with the approval of the Chairman and the Board. In both organizations the role of the Board and the top management in organizing these CSR projects is significant. Both bank and hospital

are engaging in projects which are designed to reduce the environmental footprint. A noticeable difference in this regard, was the willingness of the hospital to adhere to any particular rule or a regulation with regard to environmental protection, which emphasizes the role of regulators in strengthening regulations related to environmental protection. Both organizations do disclose information regarding their efforts to reduce the environmental impact in their annual reports. The bank has identified the environment as a separate stakeholder when disclosing information in the annual report, which shows the importance given to environmental initiatives at the bank. However, the hospital has provided information regarding social and environmental performance only in one section, thereby limiting environmental initiatives to a part of its CSR events.

A significant difference in the perception of corporate sustainability can be seen between the two cases. In the first case, the bank perceives corporate sustainability to be a mix of all economic, social and environmental aspects. The co-existence of these three factors is to be expected, and the business operations are built around the bank so that they complement this sentiment. But in the second case, economic performance is considered to be more important, and social and environmental performances are considered to be secondary, and merely by-products of economic performance. Financial growth, in particular, is considered to be extremely important in order that the hospital be sustainable.

## **Discussion**

Five objectives were set to be achieved in this study by answering the research questions, out of which three were to be achieved specifically through the quantitative part of the study, and the other two via the qualitative study. Yet, the three quantitative objectives which were hypothesized were also explored in the qualitative inquiry. All five objectives were achieved successfully.

In the quantitative stage, the researcher identified the impact of corporate governance performance on corporate sustainability. Corporate governance, as explained by Cadbury (1992), is the mechanism put in place to ensure management's duty to assure the realization of the set goals, and to keep the shareholders informed about the progress of the company. The Agency Theory (Jensen & Meckling 1976) and the Stakeholder Theory (Freeman, 1984), suggest contrasting views on corporate

governance with regard to the attention of the management. According to the former, the modern corporation becomes a nexus of contracts between principals and agents (Aguilera & Jackson, 2003), and the Agency Theory has also contributed valuable insights into many aspects of the manager- shareholder relationship (Daily et al., 2003). Many researchers have challenged this proposition, mainly because it has ignored the valuable inter-dependencies on other stakeholders (Aguilera & Jackson, 2003). Hence, the Stakeholder Theory suggests that the purpose of a corporation is to serve all its stakeholders. Elaborating on this view, this study attempts to explore how corporate governance performance impacts corporate sustainability, which consists of economic, social and environmental performances (Dyllick & Hockerts, 2002). Extending the initial clarifications of the Stakeholder Theory, many researchers (Sharma & Khanna, 2014; Kendall, 1999; Statman & Gluskhov, 2009; McKendall et al., 1999) have tried to include society and the environment into the categorization of stakeholders when investigating the relationship between corporate sustainability and corporate governance performance.

In examining the impact of corporate governance performance on corporate sustainability, the influence of directors' short term decisions on economic, social and environmental aspects of a firm and the effect of the negative consequences of those decisions in the long run can be identified. Further, the mixed methodology of this study has provided an opportunity for understanding the nature of this impact and the factors influencing the impact of corporate governance performance on corporate sustainability, as suggested by previous scholars who performed similar studies (Aras & Crowther, 2008). Such work went beyond just establishing a quantitative relationship (Sar, 2004). In the quantitative part of this study, a sample of fifty listed companies were measured in terms of their corporate governance performance using the Corporate Governance Index (Black, Jang & Kim, 2006; Balasubramanian, Black & Khanna, 2010), and their corporate sustainability using a questionnaire developed using GRI indicators (GRI, 2016).

The first research objective was to identify the impact of corporate governance performance on economic performance, and it has been achieved through both the quantitative and the qualitative parts of this study. The second and third research objectives were to identify the impacts of corporate governance performance on social and environmental performances. These objectives have been achieved in both quantitative and qualitative parts of this study. The findings re-confirm the Stakeholder

Theory, which claims that the economy, society and the environment are stakeholders of a firm and that they are influenced by the decisions taken at Board level of the firm.

After the quantitative part was concluded, two cases were selected based on their corporate governance performances. Two firms with the highest and the lowest corporate governance performances were selected for further study in the qualitative part of the research, and here employees were interviewed both at the Board level and at the corporate management level, using a structured interview guide. The differences in the perceptions of corporate sustainability were observed in this qualitative inquiry, and it was found that the ways in which the firm with the best corporate governance performance and the firm with the worst corporate governance performance perceived corporate sustainability, were different. The bank, the firm which received the highest corporate governance performance rating, perceived that economic, social and environmental aspects needed to co-exist, and that these aspects received equal attention from the Board and the management, as all three aspects needed to be sustained in order for the firm to be sustainable. But the hospital, the company with the lowest corporate governance performance, believed that economic performance is the most important of the three aspects of corporate sustainability. Social and environmental performances were considered to be by-products of economic sustainability. The fifth objective of the study was to understand how corporate governance performance impacts corporate sustainability of a company. In both case studies, it was suggested that factors like organizational culture, proactive planning, ethics, and compliance influence the relationship between corporate governance performance and corporate sustainability. Through these factors, the Board and the management of a company impact the sustainability of the company.

### ***Theoretical implications***

Many researchers (Aras & Crowther, 2008; Kocmanová, Hřebíček & Dočekalová, 2011; Sar, 2014) have studied the relationship between corporate governance and corporate sustainability. However, these studies had a limited scope, where only the causal effect between corporate governance and corporate sustainability were explained. This study stretches this boundary and elaborates on this causal effect by explaining 'how' corporate governance performance impacts the economic, social and environmental performances of a corporation. Through these insights, this study makes two key theoretical contributions, confirming and extending the Stakeholder Theory.

Firstly, the Anglo-Saxon model of corporate governance, which is derived from the well-known Agency Theory, focuses only on shareholders, and this narrow focus was challenged with the introduction of the Stakeholder Theory. Even though the Stakeholder Theory extends its focus beyond mere shareholders, society and the environment were not recognized initially. This study, confirming the Stakeholder Theory, emphasizes the need to include society and the environment as key stakeholders in corporate decision making.

Secondly, this study shows how corporate governance performance impacts corporate sustainability through organizational culture and structure, suggesting the need to treat corporate sustainability measures as organizational change which requires continuous management. Extending the Stakeholder Theory, this study suggests the importance of factors like organizational culture and structure in creating the ideal organizational environment for a stakeholder-friendly management style. For the Stakeholder Theory to be used in practice, the controls of ideal organizational culture and structure need to be considered, stretching the current boundaries of the theory.

### ***Managerial implications***

In most companies, corporate governance and corporate sustainability functions are managed without an understanding of the relationship and the impact of the former on the latter aspects (Ricart, Rodriguez & Sanchez, 2004). As Ernst and Young (2011) reported, most senior executives are now beginning to understand the importance of sustainability, but not necessarily the impact of carbon footprint reduction or the businesses' direct contribution to climate change through operations and activities. Through the insights provided in this study, managers would be made sensitive to the social, environmental and economic consequences of their decisions. In particular, when formulating the governance structures of firms, more attention could be paid to those factors that influence sustainability performance. Instead of isolating corporate governance and corporate sustainability policies, there is a need for an integration of these policies, and this fact is emphasized in the current research.

This study emphasizes the need to get the right board balance, to establish proper board procedures, have proper functioning of board subcommittees, improve investor relations and management of related parties, all of which should encourage investors to invest in the firm, should the sustainability performance of the firm be superior to its competitors. In Board room decisions, society and the environment need to be

considered as key stakeholders of every organization, as the impact on both social and environmental performances of the organization have an impact on overall organizational performances. Therefore, social and environmental policies and disclosures need to be treated very seriously, going beyond mere compliance with outside regulations to include the active involvement of the Directors and the senior management of organizations.

This study showcases the importance of using a yardstick such as the corporate governance index to measure and monitor organizations' corporate governance performances by regulators such as the Securities and Exchange Commission and the Colombo Stock Exchange. Through this, an awareness of and the commitment towards improving corporate governance performance of organizations could be expected.

Utilizing the insights of this paper, senior executives of firms are encouraged to revisit the manner in which firms perceive corporate governance and corporate sustainability in their managerial functions. As this study identifies, organizational culture and structure are vehicles driving corporate sustainability performances, and managers need to embed sustainability related values in the culture of their organizations, and be vigilant of structural changes that could influence their firms' sustainability performances.

### ***Limitations and suggestions for future research***

This study has been carried out focusing only on Sri Lankan organizations. Therefore, the application of the outcomes of the study into different geographical contexts could be a limitation. Due to time and resource limitations, the sample size of the study had to be limited to fifty entities listed on the Colombo Stock Exchange. A cross section representing all sectors of the CSE was selected as the sample of this study. No differentiation between small and large companies was made by the researcher. Hence, the generalizability of the analysis or the findings to a particular industry might be relatively low. In evaluating corporate governance performance, only the rules, regulations and voluntary codes which are applicable to Sri Lankan listed companies were considered, through an already developed and existing corporate governance index. Even though the measurement instrument was tested and proved to be valid and reliable with support from the previous literature, the applicability of this instrument to the Sri Lankan context needs to be further evaluated, and, if needed, customized accordingly.

As this study suggests a relationship between corporate governance performance and corporate sustainability performance, the moderating effect of corporate sustainability performance can be further researched to find out its impact on the relationships among corporate governance, firm performance, social performance and environmental performance. Elaborating on this approach, identifying the relationship between corporate governance and corporate sustainability in unlisted companies with strong family holdings could be a direction for future research. Moreover, this study opens up directions to investigate how factors like institutionalization, political environment and organizational behaviour moderate the relationship between corporate governance and corporate sustainability. The role of Boards of directors in corporate sustainability performance could be another avenue for future research.

## **Conclusion**

Drawing from the Stakeholder Theory, this paper has attempted to explain the importance of strong corporate governance performance in enhancing the corporate sustainability performance of firms by establishing the relationship between corporate governance and corporate sustainability. In discharging their duties, Boards need to consider the impact of decisions made on business affairs on all their stakeholders, including the society and the environment. Thus, this paper posits the importance of good governance performance in order to secure a better corporate sustainability performance as an aggregate of economic, social and environmental performances. It remains vital to integrate environmental, social and economic risks and opportunities into the long term business strategies of current businesses.

## **References**

- Abeywickrama, C. (2010). Greater Inclusion - The Way Forward for a Stable and Sustainable Banking Industry. *22nd Anniversary Convention*, 1(1), 147-152.
- Aguilera R. V., & Jackson G. (2003). The cross-national diversity of corporate governance: dimensions and determinants. *Academy of Management Review*, 28(3), 447-465.
- Aras, D., & Crowther, D. (2008). *Governance and sustainability: An investigation into the relationship between corporate governance and corporate sustainability*. Leicester, UK: Leicester Business School, De Montfort University.

- Balasubramanian, B. N., Black, B. S., & Khanna, V. S. (2008). Firm Level Corporate Governance in Emerging Markets: A case study of India. *ECGI-Law Working Paper, 119*(2009), 08-011.
- Bedicks, H. B., & Arruda, M. C. (2005). Business ethics and corporate governance in Latin America'. *Business and Society, 44*(2), 218-228.
- Benn, S., & Dunphy, D. (2007). *Corporate Governance and Sustainability: Challenges for Theory and Practice*. London: Routledge.
- Berle, A., & Means, G. (1932). *The Modern Corporation and Private Property*. New York: Macmillan.
- Black, B., Jang, H., & Kim, W. (2006). Does Corporate Governance Affect Firms' Market Values? Evidence from Korea. *Journal of Law, Economics and Organization, 22*(2), 366-413.
- Braun, V., & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology, 3*(2), 77-101.
- Braun, V., & Clarke, V. (2013). *Successful Qualitative Research: A Practical Guide for Beginners*. London: Sage.
- Brown, L. D., & Caylor, M. L. (2004). *Corporate Governance Study: The Correlation between Corporate Governance and Company Performance*. Institutional Shareholder Services (ISS).
- Burnes, B. (2004). *Managing Change: A Strategic Approach to Organisational Dynamics* (4th edn). Harlow: Prentice Hall.
- Bushman, R. M. & Smith, A. J. (2001). Financial accounting information and corporate governance. *Journal of Accounting and Economics, 1*(3), 237-333.
- Cadbury, A. (1992). *The Report of the Committee on the Financial Aspects of Corporate Governance*. London: Gee and Co. Ltd.
- Carroll, A. B. (1989). *Business and society: Ethics and stakeholder management*. Cincinnati, OH: South-Western.
- Chengalur-Smith, I., Duchessi, P., & Gil-Garcia, J. R. (2010). Information sharing and business systems leveraging in supply chains: An empirical investigation of one web-based application. *Information and Management, 49*(1), 58-67.
- Chin, W. W. (1998). *Commentary: Issues and opinion on structural equation modeling*. New Jersey: Laurence Erlbaum Associates.
- Ching, K. W., Tan, J.S., & Chi Ching R. G. (2006). *Corporate Governance in East Asia, The Road Ahead*. Prentice Hall Publication.
- Cohen, J. (1998). *Statistical power analysis for the behavioral sciences*. Hillsdale NJ: Lawrence Erlbaum Associates.
- Core, J. E., Guay, W. R., & Rusticus, T. O. (2006). Does weak governance cause weak stock returns? An examination of firm operating performance and investors' expectations. *The Journal of Finance, 61*(2), 655-687.

**The Impact of Corporate Governance Performance on Corporate Sustainability:  
A Sri Lankan Perspective**

- Creswell, J. W., & Garrett, A. L. (2008). The “movement” of mixed methods research and the role of educators. *South African Journal of Education*, 28(3), 321-333.
- Crossan, F. (2003). Research philosophy: towards an understanding. *Research Governance*, 11(1), 11-26.
- Daily, C.M., Dalton, D.R., & Cannella, A.A. (2003). Corporate Governance: Decades of Dialogue and Data. *Academy of Management Review*, 28(3), 371-382.
- Demise, N. (2005). Business ethics and corporate governance in Japan. *Business and Society*, 44(2), 211-217.
- Derwall, J., & Verwijmeren, P. (2007). *Corporate governance and the cost of equity capital: Evidence from GMI's governance rating*. European Centre for Corporate Engagement (ECCE) Research Note 06-01.
- Donaldson, T., & Preston, L. E. (1995). The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications. *Academy of Management*, 20(9), 65-91.
- Dovers, S. R., & Handmer, J. W. (1992). Uncertainty, sustainability and change. *Global Environmental Change*, 2(4), 262-276.
- Durnev, A., & Kim, E.H. (2005). To steal or not to steal: firm attributes, legal environment, and valuation. *Journal of Finance*, 60(3), 1461-1493.
- Dyllick, T., & Hockerts, K. (2002). Beyond the business case for corporate sustainability. *Business Strategy and the Environment*, 11(2), 130-141.
- Eisenhofer, J. W. (2010). *Does Corporate Governance Matter to Investment Returns?* Grant & Eisenhofer P.A.
- Elkington, J. (1997). Governance for Sustainability. *Corporate Governance: An International Review*, 14(6), 522-529
- Ernst and Young. (2011). Climate Change and Sustainability: How Sustainability Has Expanded the CFO's Role.
- Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Boston: Pitman.
- Gilson, R. J., & Row, M. J. (1999). Lifetime Employment: Labor Peace and the Evolution of Japanese Corporate Governance. *Columbia Law Review*, 99(2), 508-540.
- Gompers, P., Ishii, J., & Metrick, A. (2003). Corporate governance and equity prices. *The Quarterly Journal of Economics*, 118(1), 107-156.
- Graetz, F. (2000). Strategic change leadership. *Management Decision*, 38(8), 550-562.
- Hair, J. F., Sarstedt, M., Ringle, C. M., & Mena, J. A. (2011). An assessment of the use of partial least squares structural equation modeling in marketing research. *Journal of Academy of Marketing Science*, 40(3), 414-433.

- Hart, S. L. (1997). Beyond Greening: Strategies for a Sustainable World. *Harvard Business Review*, 66-76.
- Hasnas, J. (1998). The Normative Theories of Business Ethics: A Guide for the Perplexed. *Journal of Business Ethics*, 8(1), 19-42.
- Hermalin, B. H. (2005). Trends in Corporate Governance. *The Journal of Finance*, 60(5), 2351-2384.
- Hill, C. W. L., & Jones, T. M. (1992). Stakeholder-Agency Model. *Journal of Management Studies*, 29(2), 131-154.
- Jackson, G. (2005). Towards a comparative perspective on corporate governance and labour management: Enterprise coalitions and national trajectories. *Corporate Governance, An International Review*, 13(3), 419-428.
- Jackson, K. (2008). Natural law, human rights and corporate reputational capital in global governance. *Corporate Governance*, 8(4), 440-45.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behaviour, Agency Cost, and Ownership Structure. *Journal of Financial Economics*, 3(4), 305-360.
- Jo, H., & Harjoto, M. (2011). The Casual Effect of Corporate Governance on Corporate Social Responsibility. *Journal of Business Ethics*, 106(1), 53-72.
- Joyner, B. H. & Payne, D. (2002). Evolution and Implementation: A Study of Values, Business Ethics and Corporate Social Responsibility. *Journal of Business Ethics*, 41(4), 297-311.
- Kaplan, D. (2009). *Structural Equation Modeling: foundation and extensions* (2nd ed.). Los Angeles: SAGE
- Kimber, D., & Lipton, P. (2005). Corporate governance and business ethics in the Asia Pacific region. *Business and Society*, 44(2), 178-210.
- Klířová, J. (2001). Corporate Governance - správa a řízení obchodních společností. Praha, Management Press.
- Kocmanová, A., & Hřebíček, J. Dočekalová, M. (2011). Corporate Governance and Sustainability. *Economics and Management*, 16(3), 543-550.
- Kolk, A. (2008). Sustainability, accountability and corporate governance: Exploring multinationals' reporting practices. *Business Strategy and the Environment*, 17(1), 1-15.
- Kothari, C. R. (2004). *Research methodology, methods and techniques*. New Delhi: New Age International Private Limited Publishers.
- Luo, Y. (2005). Corporate governance and accountability in multinational enterprises: concepts and agenda. *Journal of International Management*, 11(1), 1-18.

**The Impact of Corporate Governance Performance on Corporate Sustainability:  
A Sri Lankan Perspective**

- McKendall, M., Sánchez, C., & Sicilian, P. (1999). Corporate governance and corporate illegality: The effects of board structure on environmental violations. *The International Journal of Organizational Analysis*, 7(3), 201-223.
- Mani, G.V., & Sreedharan, R. (2004). *Better Corporate Governance Pays. Insight in Risk*, 2(9). CRISIL Ratings.
- Milne, M. J., & Gray, R. (2013). W(h)ither Ecology? The Triple Bottom Line, the Global Reporting Initiative, and Corporate Sustainability Reporting. *Journal of Business Ethics*, 118(1), 13-29.
- Moran, J. W., & Brightman, B. K. (2001). Leading organizational change. *Career Development International*, 6(2), 111-118.
- Mueller, D. C. (2006). Corporate Governance and Economic Performance. *International Review of Applied Economics*, 20(5), 623-643.
- Mukherjee, D., & Ghosh, T. (2004). *An analysis of corporate performance and governance in India: Study of some selected industries* (No. 04-19). Indian Statistical Institute, New Delhi, India.
- OECD. (2004). *The OECD Principles of Corporate Governance*. France, OECD.
- Ortiz-de-Mandojana, N., Aguilera-Caracuel, J., & Aragón-Correa, J. (2010). *The adjustment of the corporate governance structures to global sustainability*. In Global Sustainability as a Business Imperative. James AF Stoner, Wankel C (eds). Palgrave Macmillan, New York; 127-146.
- Palkinkas, L. A., Aarons, G. A., Chorpita, B. F., Hoagwood, K., Landsverk, J., & Weisz, J. R. (2009). Cultural exchange and the implementation of evidence-based practice: Two case studies. *Research on Social Work Practice*, 19(3), 602-612.
- Porter, M. E., & Kramer, M. R. (2007). Strategy and Society: the link between competitive advantage and corporate social responsibility. *Harvard Business Review*.
- Reisberg, A. (2011). The notion of stewardship from a company law perspective. *Journal of Financial Crime*, 18(2), 126-147.
- Ricart, J. E., Rodriguez, M. A., & Sanchez, P. (2004). *Sustainability in the Board Room: An Empirical Examination of Dow Jones Sustainability World Index Leaders*. IESE Business School, University of Navarra.
- Rieley, J. B., & Clarkson, I. (2001). The impact of change on performance. *Journal of Change Management*, 2(2), 160-172.
- Rossouw, G. J. (2005). Business ethics and corporate governance in Africa. *Business and Society*, 44(1), 94-106.
- Ryan, L. V. (2005). Corporate governance and business ethics in North America: the state of the art. *Business and Society*, 44(1), 40-73.

- Sar, A. K. (2014). The Dynamics of Corporate Governance and Sustainability: A Study of the Indian Electricity Generation Industry. *International Journal of Ethics in Developing Economies*, 3(2), 15-21.
- Savitz, A. W., & Weber, K. (2006). *The Triple Bottom Line: How Today's Best-Run Companies Are Achieving Economic, Social and Environmental Success – And How You Can Too*. San Francisco, CA, Jossey Bass.
- Schilling, M. A. (2000). Decades ahead of her time: advancing stakeholder theory through the ideas of Mary Parker Follett. *Journal of Management History*, 6(5), 224-242.
- Schneider, A., & Scherer, A. G. (2013). Corporate Governance in a Risk Society. *Journal of Business Ethics*, 126(2), 1-15.
- Senior, B. (2002). *Organisational Change* (2nd ed.). London: Prentice Hall.
- Sharma, J. P., & Khanna, S. (2014). Corporate Social Responsibility, Corporate Governance and Sustainability: Synergies and Inter-relationships. *Indian Journal of Corporate Governance*, 7(1), 14-38.
- Shrivastava, P., & Addas, A. (2014). The impact of corporate governance on sustainability performance. *Journal of Sustainable Finance and Investment*, 4(1), 21-37.
- Sneirson, F. S. (2009). Green Is Good: Sustainability, Profitability, and a New Paradigm for Corporate Governance. *Iowa Law Review*, 4(22), 987-1022.
- Statman, M. D., & Glushkov, D. (2009). The wages of social responsibility. *Financial Analysts Journal*, 65(4), 33-46.
- Spira, L. F., & Bender, R.. (2004). Compare and contrast: Perspectives on board committees. *Corporate Governance: An International Review*, 12(4), 489-499.
- van Marrewijk, M. (2013). *Concepts and Definitions of CSR and Corporate Sustainability: Between Agency and Communion*. In: Michalos A., Poff D.
- Waddock, S. A., & Graves, S. B. (1997). The Corporate Social Performance-Financial Performance Link. *Strategic Management Journal*, 18(4), 313-319.
- Walls, J. L., Berrone, P. B., & Phan, P. H. (2012). Corporate governance and environmental performance: Is there really a link? *Strategic Management Journal*, 33(8), 885-913.
- Wieland, J. (2005). Corporate governance, values management, and standards: A European perspective. *Business and Society*, 44(1), 74-93.
- Yin, R. K. (2003). *Case study research: Design and methods* (3rd ed.). Thousand Oaks, CA: Sage.
- Yin, R. K. (2014). *Case study research: Design and methods* (5th ed.). Thousand Oaks, CA: Sage.

Copyright of Sri Lankan Journal of Management is the property of Postgraduate Institute of Management and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.